



Legislative Audit Division

State of Montana

Report to the Legislature

October 2006

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2006

Department of Military Affairs

This report contains six recommendations relating to:

- **Not Following Required Bid Procedures**
- **Noncompliance with Federal Grant Requirements**
- **Unallowable Costs Charged to Federal Programs**
- **Lack of Controls over Authorizing Transactions**
- **Federal Special Revenue Fund Misstatements**
- **Untimely Payment of Claims**

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Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705**

06-25

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Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

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Office of Budget and Program Planning
State Capitol
Helena MT 59620
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Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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October 2006

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Military Affairs for the two fiscal years ended June 30, 2006. Included in this report are recommendations related to bid procedures, noncompliance with federal grant requirements, unallowable costs charged to federal programs, federal special revenue fund misstatements, internal controls authorizing transactions, and untimely payment of claims.

The department's written response to the audit recommendations is included at the end of the audit report. We thank the Adjutant General and his staff for their assistance and cooperation.

Respectfully submitted,

/s/ Scott A. Seacat

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2006

Department of Military Affairs

Members of the audit staff involved in this audit were

Cindy S. Jorgenson, Paul J. O'Loughlin, Delsi Plummer, Sonia Powell,
Vickie Rauser, Jeff Tamblyn, Lena Tamcke, and Amber Thorvilson.

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Appointed and Administrative Officials

Department of Military Affairs

Major General Randall Mosley, Adjutant General
Karen Revious, Administrator, Centralized Services Division
Dan McGowan, Administrator, Disaster and Emergency Services Division
Joseph Foster, Administrator, Veterans' Affairs Division
Reid Lund, Administrator, Youth Challenge Program

Board of Veterans' Affairs

Executive Committee

Don Kettner, Chairman
Bob Pavlovich, Vice Chairman
Joseph Foster, Administrator, Veterans' Affairs Division

| | <u>Term</u> <u>Expires</u> |
|--|-------------------------------|
| Lloyd Jackson | Ronan 8/01/2006 |
| Bob Pavlovich | Butte 8/01/2007 |
| Harvey Rattey | Glendive 8/01/2007 |
| Charlie Crookshanks | Missoula 8/01/2007 |
| James Heffernan | Helena 8/01/2007 |
| Sylvia Beals | Forsyth 8/01/2007 |
| Don Kettner | Glendive 8/01/2008 |
| Polly Latray | Helena 8/01/2009 |
| Major General Randall Mosley | Fort Harrison 8/01/2009 |
| Charette Reno | Helena 8/01/2009 |
| Keith Heavyrunner | Browning 8/01/2009 |
| Harry Lafriniere | Florence 8/01/2010 |
| Kelly Williams | Helena 8/01/2010 |
| Joe Tropila | Great Falls 8/01/2010 |
| Teresa Bell | Fort Harrison 8/01/2010 |
| Mary Creech | Butte 8/01/2010 |
| Thomas Huddleston | Helena 8/01/2010 |
| Sarah Converse, representing Senator Burns | |
| James Swartout, representing Senator Baucus | |
| Stacey Graham, representing Representative Rehberg | |

For additional information concerning the
Department of Military Affairs contact:

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Department of Military Affairs
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Helena, MT 59604-4789
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**Department of Military
Affairs**

This report documents the issues noted during our financial-compliance audit of the Department of Military Affairs for the two fiscal years ended June 30, 2006. The prior audit report contained three recommendations which the department implemented. We issued a qualified opinion on the department's financial schedules presented in this report. This means the reader should use caution in relying on the presented financial information and the supporting detailed information on the state's accounting system.

This report contains six recommendations to the department concerning following required bid procedures, noncompliance with federal grant requirements, unallowable costs charged to federal programs, lack of controls over authorizing transactions, Federal Special Revenue Fund misstatements, and untimely payment of claims.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department:

- A. Comply with bidding requirements in accordance with state law.
- B. Ensure appropriate segregation of duties exist for asset acquisition..... 6

Department Response: Concur. See page B-3.

Recommendation #2

We recommend the department ensure they receive certification that contractors are not debarred or suspended in accordance with federal regulations..... 7

Department Response: Concur. See page B-3.

Report Summary

Recommendation #3 We recommend the department ensure only allowable costs are charged to federal programs. 8

Department Response: Concur. See page B-3.

Recommendation #4 We recommend the department:
A. Require individuals approving claims to use their own name or initials.
B. Review transactions to ensure they post as intended. 9

Department Response: Concur. See page B-3.

Recommendation #5 We recommend the department analyze activity in the Federal Special Revenue Funds to determine and process correcting transactions to ensure compliance with state accounting policy. 10

Department Response: Concur. See page B-3.

Recommendation #6 We recommend the department pay claims in accordance with state law and department policy. 10

Department Response: Concur. See page B-4.

Introduction

Introduction

We performed the financial-compliance audit of the Department of Military Affairs (department) for the two fiscal years ended June 30, 2006. The objectives of the audit were to:

1. Determine if the department complied with applicable state and federal laws and regulations.
2. Obtain an understanding of the department's control systems, and, if appropriate, make recommendations for improvement in the internal and management controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the department's financial schedules fairly present the results of operations for the two fiscal years ended June 30, 2006.

This report contains six recommendations to the department. These recommendations address areas where the department can improve compliance and internal controls over federal awards and state accounting procedures. Areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

Background

The department was created under the Executive Reorganization Act of 1971. The department consists of the following programs and authorized full-time equivalent positions (FTE) for fiscal year 2005-06.

Montana National Guard is authorized approximately 71 FTE that are paid through the state's payroll system. An additional 867 full-time personnel are paid through the federal payroll system. The Montana National Guard has two programs – the Air National Guard and the Army National Guard. The Air National Guard provides firefighting personnel, maintenance, and support for Air National

Introduction

Guard facilities at Great Falls. The Army National Guard provides administration, construction, maintenance, and support for military facilities and training areas throughout the state.

Centralized Services Division (9 FTE) is the primary administrative support organization for the department, including financial management, budgeting, personnel, and other administrative functions.

Disaster and Emergency Services Division (DES) (25 FTE) works with local, state, and federal officials to prepare, update, and coordinate emergency preparedness, response and recovery plans. DES provides technical support for civil defense shelters, exercises, and radiological defense and monitoring. The division also receives, records, and disburses federal funds to eligible government entities.

Montana National Guard Youth Challenge Program (48 FTE) is a program for youth ages 16 to 18 who stopped attending secondary school before graduating. Challenge is a 17-month, voluntary, two-phased military modeled training program targeting unemployed, drug-free, non-felons, not currently under judicial supervision. The program provides an opportunity for eligible high school age youths to enhance their life skills, increase their educational levels, and increase their employment potential.

Veterans' Affairs Division (22 FTE) is responsible for assisting Montana's veterans and dependents in obtaining veterans' benefits and managing the State Veterans' Cemetery program. The division provides information on benefits, guidance on completing veterans' administration forms, and referral to other agencies. The division is attached to the department for administrative purposes. The division administrator is hired by, and reports to, the Board of Veterans' Affairs, a 20-member board, of which 17 are appointed by the Governor and three represent the members of Montana's congressional delegation.

Montana Guard Scholarship Program was established by the 56th Legislature to assist in recruiting and retention efforts for the Montana Air and Army National Guard. The program provides scholarships of up to \$500 per semester to eligible Montana National Guard personnel enrolled as undergraduate students at Montana colleges, universities, or in training programs.

Prior Audit Recommendations

Our office performed the department's financial-compliance audit for the two fiscal years ended June 30, 2004. That report contained three recommendations, which the department implemented.

Findings and Recommendations

Federal Compliance and Controls

The department receives federal funds to assist the National Guard with major capital construction and with operations and maintenance of facilities in the state. The department also receives federal funds to implement Homeland Security grant programs in the state. The following report sections address areas where the department can improve both compliance and internal controls over activity related to these federal awards.

Construction/Operations and Maintenance

Bidding Procedures

The department did not follow established bid procedures which resulted in \$99,870 of questioned costs.

We reviewed 22 claims related to construction and operations and maintenance activity for fiscal year 2005-06. One of those claims was for road materials costing \$89,340. The department did not conduct a competitive bid for the materials. We also noted that the same individual authorized the purchase, signed for receipt of the materials, and approved the invoice for payment. Lack of segregation of duties increases risk of asset misappropriation.

Unless otherwise specified, federal regulations require the department to follow state procurement policy for the expenditure of federal funds. The purchasing agreement between the department and the Department of Administration requires bids for goods and services exceeding \$25,000. In addition, a proper system of internal controls should provide for a segregation of duties between authorizing, receiving, invoice approval, and custody of assets. Personnel noted the initial work was expected to be under \$5,000 but the scope of the project was expanded because of good weather. The program manager said that he is authorized to approve expenditures. The department is not in compliance with state policy for procurement of services and therefore we question the \$89,340 charged to the federal program.

Findings and Recommendations

We also examined the design phase of a recent project and found the department did not follow proper procedures in advertising for and the selecting of an architect. The department stated they follow guidance developed by the Architecture and Engineering Division (A&E) of the Department of Administration in compliance with state law. The A&E division publishes bidding and selection procedures to select qualifying professionals for projects costing over \$500,000. Personnel said some of the procedures were not followed because they believed the entire cost of the project would be under \$500,000 and they wanted to use the same firm that had been selected for another related project. Information in the department's files indicated the project cost to be approximately \$750,000. Because the department did not follow proper procurement procedures we question the \$10,530 cost paid to the architect in fiscal year 2005-06.

Recommendation #1

We recommend the department:

- A. Comply with bidding requirements in accordance with state law.**
- B. Ensure appropriate segregation of duties exist for asset acquisition.**

Checking for Debarred and Suspended Parties

For some contracts the department did not ensure that contractors being paid with federal funds are not suspended or debarred.

Federal regulations require the department to ensure that all contractors receiving awards must certify that their organization and its principals are not suspended or debarred. Federal regulations also forbid the department from making any award (subgrant or contract) to any party which is suspended or debarred. Federal regulations provide that certification may be accomplished by: 1) checking the Excluded Parties List System maintained by the federal General Services Administration, 2) collecting a certification from the contractor, or 3) adding a clause or condition to the covered transaction with the entity.

Findings and Recommendations

We noted two instances of services procured where the department did not obtain required certification from the contractor. We verified the contractors were not suspended or debarred. Personnel stated they do not ensure they have required certification in all cases. As noted above all contracted entities receiving federal money should be certifying that they are not suspended or debarred.

Recommendation #2

We recommend the department ensure they receive certification that contractors are not debarred or suspended in accordance with federal regulations.

Homeland Security

Unallowable Costs Charged to Federal Program

The department charged \$6,417 of unallowable costs to a federal program.

Federal regulations require that costs charged to federal grants be necessary and reasonable to comply with the award and incurred within the award period. We found instances of unallowable costs charged to the Homeland Security grant as explained in the sections below.

Unallowable Salary Costs

We found the department charged \$1,820 of salary expense to a grant period that was closed. We also found that the charges were not allowable even if they had been incurred prior to the grant being closed. A supervisor approved the charges to the grant without verifying that the salary expense was for services related to the grant and incurred within the funding period.

Unallowable Travel and Relocation Costs

We reviewed 20 items charged to the Homeland Security grant in fiscal year 2005-06 and found unallowable charges totaling \$4,597 (\$242 for travel and \$4,355 of relocation costs) charged to a federal award. We determined these costs were not allowable under the provisions of the grant. The grant coordinator said the charges were overlooked when the claim was approved.

Findings and Recommendations

The department should ensure that costs charged to federal programs are allowable according to the terms of the awards. We question \$6,417 charged to the Homeland Security grant.

Recommendation #3

We recommend the department ensure only allowable costs are charged to federal programs.

Internal Control Over Transactions

The department does not have effective controls over authorization and verifying validity of transactions charged to the Homeland Security grant.

We identified a transaction charged to the Homeland Security Program that appeared to be an unallowable charge. While discussing this transaction with department personnel, we were told by the supervisor who approved the transaction that an unknown individual changed the transaction coding before it was processed on the accounting system. We determined the charge was allowable but not coded correctly to provide management with accurate information for program oversight. A supervisor said that personnel were not reviewing financial records to see if transactions posted as intended.

We were also told that program staff are authorized to use the grant coordinator's initials for approving claims. This practice makes it difficult for management to affix responsibility for the approval of claims or to contact the appropriate individual to resolve other questions that may arise.

The department's controls over transaction processing for the Homeland Security Program should include comparing charges against allowable provisions of the grant, requiring individuals who approve claims to document the approval with their own name or initials, and reviewing transactions to ensure they processed on the accounting system as intended. Because of the issues discussed here

Findings and Recommendations

and above in Recommendation #3, we believe questioned costs in the Homeland Security Grant program could exceed \$10,000.

Recommendation #4

We recommend the department:

- A. Require individuals approving claims to use their own name or initials.**
- B. Review transactions to ensure they post as intended.**

State Accounting Issues

The following sections discuss areas where the department can improve processing financial information in accordance with state law or accounting policy.

Misstated Ending Fund Balance in the Federal Special Revenue Fund

In fiscal years 2004-05 and 2005-06 the department did not properly record financial activity for some Federal Special Revenue Funds (FSRF) to ensure proper ending fund balances. State accounting policy provides guidance for recording receivables, deferring revenue, and accruing expenditures as appropriate to ensure a proper ending fund balance in the FSRF.

Because of errors in prior years, the July 1, 2004, fund balance in the FSRF is overstated by \$884,306. Continuing errors in fiscal year 2004-05 caused federal revenues and June 30, 2005, fund balance in the FSRF to be overstated by \$975,007. Therefore, the July 1, 2005, fund balance in the FSRF is also overstated by \$975,007. Errors occurring in fiscal year 2005-06 caused federal revenues and June 30, 2006, fund balance to be understated by \$624,000.

Department personnel said they did not complete an analysis to properly record activity before each fiscal year-end. The department should complete an analysis of fund balance and federal revenue and expenditures in order to process required transactions to ensure compliance with state accounting policy.

Findings and Recommendations

Recommendation #5

We recommend the department analyze activity in the Federal Special Revenue Funds to determine and process correcting transactions to ensure compliance with state accounting policy.

Delays in Making Payments

Division personnel receive and approve claims and note the transaction coding on the claim before sending it to the Centralized Services Division (CSD) for payment. Section 17-8-242, MCA, requires the department to pay claims within 30 days. We noted 40 payments where the delays between the receipt of an invoice and the actual payment exceeded 30 days. Delays ranged from 34 days to 140 days. Thirty-five of the 40 late payments were to government entities which are exempted from the 30-day requirement under section 17-8-244, MCA; however, the department's internal policy requires all claims to be paid within 30 days.

We reviewed documentation indicating the delays are at the division level. Department personnel attributed the delays to workloads and staff turnover. We noted delays occurring from receipt of the claim until it was coded and from the time it was coded until it was sent to CSD.

The department is not in compliance with state law and its own policy. The department could analyze workloads and improve claim processing times by establishing procedures, communicating those procedures to responsible individuals, and monitoring payment dates to ensure established procedures are being followed.

Recommendation #6

We recommend the department pay claims in accordance with state law and department policy.

Independent Auditor's Report & Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Military Affairs for each of the fiscal years ended June 30, 2006, and 2005. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets and liabilities.

For fiscal years ending June 30, 2006, and 2005, the department did not completely analyze Federal Special Revenue Fund revenues, expenditures, and fund balances to determine adjustments necessary for proper revenue recognition. As a result, the following misstatements occurred in the Federal Special Revenue Fund on the Schedules of Changes in Fund Balance:

| <u>Fiscal Year 2004-05</u> | <u>Over (Under) Stated</u> |
|----------------------------------|----------------------------|
| Fund Balance, July 1, 2004 | \$884,306 |
| Budgeted Revenues & Transfers-In | \$975,007 |
| Fund Balance, June 30, 2005 | \$975,007 |

| <u>Fiscal Year 2005-06</u> | <u>Over (Under) Stated</u> |
|----------------------------------|----------------------------|
| Fund Balance, July 1, 2005 | \$975,007 |
| Budgeted Revenues & Transfers-In | \$(624,000) |
| Fund Balance, June 30, 2006 | \$(624,000) |

In our opinion, except for the effects of the issues discussed in the preceding paragraph, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Military Affairs for each of the fiscal years ended June 30, 2006, and 2005, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

July 27, 2006

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Capital Projects Fund |
|---|----------------------------|-------------------------------|---------------------------------|--------------------------|
| FUND BALANCE: July 1, 2005 | \$ <u>(1,134,198)</u> | \$ <u>619,139</u> | \$ <u>545,559</u> | \$ <u>(408,501)</u> |
| ADDITIONS | | | | |
| Budgeted Revenues & Transfers-In | 3,504,870 | 1,339,516 | 46,370,776 | 722,559 |
| NonBudgeted Revenues & Transfers-In | 1,037 | 4,021 | | |
| Prior Year Revenues & Transfers-In Adjustments | 21,096 | 219,502 | (623,156) | |
| Direct Entries to Fund Balance | <u>2,068,422</u> | <u>139,620</u> | <u>(3,021,062)</u> | |
| Total Additions | <u>5,595,425</u> | <u>1,702,659</u> | <u>42,726,558</u> | <u>722,559</u> |
| REDUCTIONS | | | | |
| Budgeted Expenditures & Transfers-Out | 5,073,566 | 1,039,947 | 44,030,814 | 314,059 |
| NonBudgeted Expenditures & Transfers-Out | (3,937) | | | |
| Prior Year Expenditures & Transfers-Out Adjustments | <u>(20,064)</u> | <u>(17,802)</u> | <u>124,553</u> | |
| Total Reductions | <u>5,049,565</u> | <u>1,022,145</u> | <u>44,155,367</u> | <u>314,059</u> |
| FUND BALANCE: June 30, 2006 | \$ <u><u>(588,338)</u></u> | \$ <u><u>1,299,653</u></u> | \$ <u><u>(883,250)</u></u> | \$ <u><u>(1)</u></u> |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | <u>General Fund</u> | <u>State Special Revenue Fund</u> | <u>Federal Special Revenue Fund</u> | <u>Capital Projects Fund</u> |
|---|------------------------------|---------------------------------------|---|----------------------------------|
| FUND BALANCE: July 1, 2004 | \$ <u>(377,535)</u> | \$ <u>531,051</u> | \$ <u>296,841</u> | \$ <u>(454,790)</u> |
| ADDITIONS | | | | |
| Budgeted Revenues & Transfers-In | 901 | 892,864 | 54,139,252 | 7,263,111 |
| NonBudgeted Revenues & Transfers-In | 1,031 | | | |
| Prior Year Revenues & Transfers-In Adjustments | (331) | 20,130 | 19,726,795 | |
| Direct Entries to Fund Balance | <u>4,220,371</u> | <u>20,606</u> | <u>(22,358,431)</u> | |
| Total Additions | <u>4,221,972</u> | <u>933,600</u> | <u>51,507,616</u> | <u>7,263,111</u> |
| REDUCTIONS | | | | |
| Budgeted Expenditures & Transfers-Out | 4,919,218 | 846,602 | 51,230,772 | 7,216,822 |
| NonBudgeted Expenditures & Transfers-Out | 59,896 | | | |
| Prior Year Expenditures & Transfers-Out Adjustments | (479) | (1,090) | 28,126 | |
| Total Reductions | <u>4,978,635</u> | <u>845,512</u> | <u>51,258,898</u> | <u>7,216,822</u> |
| FUND BALANCE: June 30, 2005 | \$ <u><u>(1,134,198)</u></u> | \$ <u><u>619,139</u></u> | \$ <u><u>545,559</u></u> | \$ <u><u>(408,501)</u></u> |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Capital Projects Fund | Total |
|---|-----------------|-------------------------------|---------------------------------|--------------------------|--------------|
| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | | |
| Taxes | \$ 1,037 | | \$ 1,728 | | \$ 2,765 |
| Charges for Services | 3,525,966 | \$ 102,239 | 3,285 | | 3,631,490 |
| Rentals, Leases and Royalties | | 800 | | | 800 |
| Miscellaneous | | 4,021 | | | 4,021 |
| Grants, Contracts, Donations and Abandonments | | 6,910 | | | 6,910 |
| Other Financing Sources | | 1,449,069 | | \$ 722,559 | 2,171,628 |
| Federal | | | 45,729,893 | | 45,729,893 |
| Federal Indirect Cost Recoveries | | | 12,714 | | 12,714 |
| Total Revenues & Transfers-In | 3,527,003 | 1,563,039 | 45,747,620 | 722,559 | 51,560,221 |
| Less: Nonbudgeted Revenues & Transfers-In | 1,037 | 4,021 | | | 5,058 |
| Prior Year Revenues & Transfers-In Adjustments | 21,096 | 219,502 | (623,156) | | (382,558) |
| Actual Budgeted Revenues & Transfers-In | 3,504,870 | 1,339,516 | 46,370,776 | 722,559 | 51,937,721 |
| Estimated Revenues & Transfers-In | 3,304,501 | 1,339,720 | 45,263,718 | 722,559 | 50,630,498 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | \$ 200,369 | \$ (204) | \$ 1,107,058 | \$ (0) | \$ 1,307,223 |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | | |
| Taxes | \$ (676) | | | | \$ (676) |
| Charges for Services | 201,045 | \$ (100) | | | 200,945 |
| Grants, Contracts, Donations and Abandonments | | (100) | | | (100) |
| Other Financing Sources | | (4) | | | (4) |
| Federal | | | 1,107,058 | | 1,107,058 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | \$ 200,369 | \$ (204) | \$ 1,107,058 | \$ (0) | \$ 1,307,223 |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| | <u>General Fund</u> | <u>State Special Revenue Fund</u> | <u>Federal Special Revenue Fund</u> | <u>Capital Projects Fund</u> | <u>Total</u> |
|---|---------------------|---------------------------------------|---|----------------------------------|----------------------|
| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | | |
| Taxes | \$ 1,031 | | | | 1,031 |
| Charges for Services | 570 | \$ 82,920 | \$ (12,263,962) | | (12,180,472) |
| Grants, Contracts, Donations and Abandonments | | 8,240 | | | 8,240 |
| Other Financing Sources | | 821,834 | | \$ 7,263,111 | 8,084,945 |
| Federal | | | 86,127,391 | | 86,127,391 |
| Federal Indirect Cost Recoveries | | | 2,618 | | 2,618 |
| Total Revenues & Transfers-In | <u>1,601</u> | <u>912,994</u> | <u>73,866,047</u> | <u>7,263,111</u> | <u>82,043,753</u> |
| Less: Nonbudgeted Revenues & Transfers-In | 1,031 | | | | 1,031 |
| Prior Year Revenues & Transfers-In Adjustments | <u>(331)</u> | <u>20,130</u> | <u>19,726,795</u> | | <u>19,746,594</u> |
| Actual Budgeted Revenues & Transfers-In | 901 | 892,864 | 54,139,252 | 7,263,111 | 62,296,128 |
| Estimated Revenues & Transfers-In | 40,000 | 1,470,205 | 39,405,523 | 5,000,000 | 45,915,728 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | <u>\$ (39,099)</u> | <u>\$ (577,341)</u> | <u>\$ 14,733,729</u> | <u>\$ 2,263,111</u> | <u>\$ 16,380,400</u> |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | | |
| Charges for Services | \$ (39,099) | \$ (390,610) | \$ (42,019) | | (471,728) |
| Rentals, Leases and Royalties | | (26,000) | | | (26,000) |
| Grants, Contracts, Donations and Abandonments | | (31,760) | | | (31,760) |
| Other Financing Sources | | (128,971) | | \$ 2,263,111 | 2,134,140 |
| Federal | | | 14,803,628 | | 14,803,628 |
| Federal Indirect Cost Recoveries | | | (27,880) | | (27,880) |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | <u>\$ (39,099)</u> | <u>\$ (577,341)</u> | <u>\$ 14,733,729</u> | <u>\$ 2,263,111</u> | <u>\$ 16,380,400</u> |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT | Air National Guard | Army National Guard | Centralized Services Division | Challenge Program | Disaster And Emergency Services | Disaster Fund | Military Capital Construction | Scholarship Program | Veterans Affairs | Total |
|---|-----------------------|------------------------|----------------------------------|----------------------|------------------------------------|---------------------|----------------------------------|------------------------|---------------------|----------------------|
| Personal Services | | | | | | | | | | |
| Salaries | \$ 1,305,148 | \$ 1,427,333 | \$ 427,119 | \$ 1,244,618 | \$ 1,069,530 | \$ 91,047 | \$ 2,055 | | \$ 758,526 | \$ 6,325,376 |
| Employee Benefits | 474,117 | 431,427 | 109,417 | 462,908 | 321,947 | 18,390 | 500 | | 256,380 | 2,075,086 |
| Total | <u>1,779,265</u> | <u>1,858,760</u> | <u>536,536</u> | <u>1,707,526</u> | <u>1,391,477</u> | <u>109,437</u> | <u>2,555</u> | | <u>1,014,906</u> | <u>8,400,462</u> |
| Operating Expenses | | | | | | | | | | |
| Other Services | 405,385 | 3,489,575 | 23,814 | 463,384 | (45,590) | 14,323 | 6,467 | | 43,870 | 4,401,228 |
| Supplies & Materials | 147,429 | 1,305,389 | 48,313 | 177,553 | 87,757 | 4,588 | 185,703 | | 18,764 | 1,975,496 |
| Communications | 1,510 | 1,240,233 | 9,328 | 51,731 | 62,423 | 2,037 | 56 | | 57,850 | 1,425,168 |
| Travel | 721 | 66,903 | 14,859 | 119,843 | 159,654 | 19,326 | 287 | | 37,835 | 419,428 |
| Rent | | 164,887 | 402 | 280,486 | 9,434 | 105 | | | 38,694 | 494,008 |
| Utilities | 624,330 | 1,643,962 | | 506 | | | | | 7,694 | 2,276,492 |
| Repair & Maintenance | 132,259 | 1,582,738 | 14 | 18,687 | 26,479 | 59 | 6,823 | | 54,129 | 1,821,188 |
| Other Expenses | 1,293 | (242,120) | 156,514 | 55,009 | (20,528) | 2,393 | | 235,500 | 117,370 | 305,431 |
| Total | <u>1,312,927</u> | <u>9,251,567</u> | <u>253,244</u> | <u>1,167,199</u> | <u>279,629</u> | <u>42,831</u> | <u>199,336</u> | <u>235,500</u> | <u>376,206</u> | <u>13,118,439</u> |
| Equipment & Intangible Assets | | | | | | | | | | |
| Equipment | | 1,327,880 | | | | | | | 175,000 | 1,502,880 |
| Total | | <u>1,327,880</u> | | | | | | | <u>175,000</u> | <u>1,502,880</u> |
| Capital Outlay | | | | | | | | | | |
| Land & Interest In Land | | | | | | | 69,652 | | | 69,652 |
| Buildings | | | | | | | 10,206,540 | | | 10,206,540 |
| Other Improvements | | | | | | | 503,971 | | | 503,971 |
| Total | | | | | | | <u>10,780,163</u> | | | <u>10,780,163</u> |
| Grants | | | | | | | | | | |
| From State Sources | | | | | | 245,090 | | | | 245,090 |
| From Federal Sources | | | | | 15,708,174 | 61,089 | | | | 15,769,263 |
| Total | | | | | <u>15,708,174</u> | <u>306,179</u> | | | | <u>16,014,353</u> |
| Benefits & Claims | | | | | | | | | | |
| To Individuals | | | 2,280 | | | | | | | 2,280 |
| Total | | | <u>2,280</u> | | | | | | | <u>2,280</u> |
| Transfers | | | | | | | | | | |
| Accounting Entity Transfers | | | | | | | 722,559 | | | 722,559 |
| Total | | | | | | | <u>722,559</u> | | | <u>722,559</u> |
| Total Expenditures & Transfers-Out | \$ <u>3,092,192</u> | \$ <u>12,438,207</u> | \$ <u>792,060</u> | \$ <u>2,874,725</u> | \$ <u>17,379,280</u> | \$ <u>458,447</u> | \$ <u>11,704,613</u> | \$ <u>235,500</u> | \$ <u>1,566,112</u> | \$ <u>50,541,136</u> |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | | | | | | | | |
| General Fund | \$ 306,913 | \$ 1,197,243 | \$ 452,698 | \$ 1,129,104 | \$ 643,375 | \$ 303,261 | | \$ 235,500 | \$ 781,471 | \$ 5,049,565 |
| State Special Revenue Fund | | | 124,462 | | 110,572 | 4,336 | | | 782,775 | 1,022,145 |
| Federal Special Revenue Fund | 2,785,279 | 11,240,964 | 214,900 | 1,745,621 | 16,625,333 | 150,850 | \$ 11,390,554 | | 1,866 | 44,155,367 |
| Capital Projects Fund | | | | | | | 314,059 | | | 314,059 |
| Total Expenditures & Transfers-Out | 3,092,192 | 12,438,207 | 792,060 | 2,874,725 | 17,379,280 | 458,447 | 11,704,613 | 235,500 | 1,566,112 | 50,541,136 |
| Less: Nonbudgeted Expenditures & Transfers-Out | (137) | (305) | (342) | (1,171) | (762) | 0 | 0 | 0 | (1,220) | (3,937) |
| Prior Year Expenditures & Transfers-Out Adjustments | (4,142) | (71,786) | 787 | (850) | 270,153 | 0 | (75,173) | (14,500) | (17,802) | 86,687 |
| Actual Budgeted Expenditures & Transfers-Out | 3,096,471 | 12,510,298 | 791,615 | 2,876,746 | 17,109,889 | 458,447 | 11,779,786 | 250,000 | 1,585,134 | 50,458,386 |
| Budget Authority | 3,215,930 | 17,157,329 | 1,001,094 | 2,886,791 | 38,752,284 | 5,328,170 | 32,431,031 | 250,000 | 1,747,433 | 102,770,062 |
| Unspent Budget Authority | \$ <u>119,459</u> | \$ <u>4,647,031</u> | \$ <u>209,479</u> | \$ <u>10,045</u> | \$ <u>21,642,395</u> | \$ <u>4,869,723</u> | \$ <u>20,651,245</u> | \$ <u>0</u> | \$ <u>162,299</u> | \$ <u>52,311,676</u> |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | | | | | | | |
| General Fund | \$ 7,498 | \$ 2,306 | \$ 17,503 | \$ 2,929 | \$ 768 | \$ 31,699 | | | \$ 1,023 | \$ 63,726 |
| State Special Revenue Fund | | 26,300 | 175,538 | | 205,131 | | | | 147,846 | 554,815 |
| Federal Special Revenue Fund | 111,961 | 4,618,425 | 16,438 | 7,116 | 21,436,496 | 4,838,024 | \$ 20,313,043 | | 13,430 | 51,354,933 |
| Capital Projects Fund | | | | | | | 338,202 | \$ | | 338,202 |
| Unspent Budget Authority | \$ <u>119,459</u> | \$ <u>4,647,031</u> | \$ <u>209,479</u> | \$ <u>10,045</u> | \$ <u>21,642,395</u> | \$ <u>4,869,723</u> | \$ <u>20,651,245</u> | \$ <u>0</u> | \$ <u>162,299</u> | \$ <u>52,311,676</u> |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT | <u>Air National Guard</u> | <u>Army National Guard</u> | <u>Centralized Services Division</u> | <u>Youth Challenge</u> | <u>Disaster and Emergency Services</u> | <u>Disaster Fund</u> | <u>Military Capital Construction</u> | <u>Scholarship</u> | <u>Veterans Affairs</u> | <u>Total</u> |
|---|-------------------------------|--------------------------------|--|------------------------|--|--------------------------|--|--------------------|-----------------------------|----------------------|
| Personal Services | | | | | | | | | | |
| Salaries | \$ 1,283,358 | \$ 1,388,964 | \$ 364,436 | \$ 1,201,933 | \$ 1,099,604 | \$ 20,399 | \$ 5,078 | | \$ 680,024 | \$ 6,043,796 |
| Employee Benefits | <u>486,572</u> | <u>420,969</u> | <u>91,730</u> | <u>447,327</u> | <u>340,202</u> | <u>7,177</u> | <u>1,347</u> | | <u>236,443</u> | <u>2,031,767</u> |
| Total | <u>1,769,930</u> | <u>1,809,933</u> | <u>456,166</u> | <u>1,649,260</u> | <u>1,439,806</u> | <u>27,576</u> | <u>6,425</u> | | <u>916,467</u> | <u>8,075,563</u> |
| Operating Expenses | | | | | | | | | | |
| Other Services | 491,690 | 2,173,488 | 31,036 | 511,521 | 728,172 | 2,787 | 42,707 | | 235,431 | 4,216,832 |
| Supplies & Materials | 151,901 | 377,449 | 9,491 | 176,596 | 112,049 | 1,449 | | | 111,578 | 940,513 |
| Communications | 1,238 | 848,236 | 4,762 | 53,302 | 35,397 | 983 | 65 | | 42,589 | 986,572 |
| Travel | 5,558 | 70,401 | 6,379 | 118,907 | 157,275 | 1,875 | 295 | | 56,697 | 417,387 |
| Rent | 565 | 87,346 | 428 | 276,825 | 6,217 | 173 | | | 40,778 | 412,332 |
| Utilities | 570,027 | 1,356,644 | | 200 | | | | | 6,704 | 1,933,575 |
| Repair & Maintenance | 118,817 | 1,390,160 | | 15,830 | 26,891 | 92 | 36,650 | | 122,955 | 1,711,395 |
| Other Expenses | <u>4,112</u> | <u>124,378</u> | <u>25,215</u> | <u>41,963</u> | <u>77,750</u> | <u>210</u> | | <u>73,500</u> | <u>56,727</u> | <u>403,855</u> |
| Total | <u>1,343,908</u> | <u>6,428,102</u> | <u>77,311</u> | <u>1,195,144</u> | <u>1,143,751</u> | <u>7,569</u> | <u>79,717</u> | <u>73,500</u> | <u>673,459</u> | <u>11,022,461</u> |
| Equipment & Intangible Assets | | | | | | | | | | |
| Equipment | | <u>112,138</u> | | | | | | | | <u>112,138</u> |
| Total | | <u>112,138</u> | | | | | | | | <u>112,138</u> |
| Capital Outlay | | | | | | | | | | |
| Buildings | | | | | | | 18,654,429 | | | 18,654,429 |
| Other Improvements | | | | | | | <u>9,394</u> | | | <u>9,394</u> |
| Total | | | | | | | <u>18,663,823</u> | | | <u>18,663,823</u> |
| Grants | | | | | | | | | | |
| From State Sources | | | | | | 39,296 | | | | 39,296 |
| From Federal Sources | | | | | <u>18,353,919</u> | <u>767,276</u> | | | | <u>19,121,195</u> |
| Total | | | | | <u>18,353,919</u> | <u>806,572</u> | | | | <u>19,160,491</u> |
| Benefits & Claims | | | | | | | | | | |
| To Individuals | | | <u>2,280</u> | | | | | | | <u>2,280</u> |
| Total | | | <u>2,280</u> | | | | | | | <u>2,280</u> |
| Transfers | | | | | | | | | | |
| Accounting Entity Transfers | | | | | | | <u>7,263,111</u> | | | <u>7,263,111</u> |
| Total | | | | | | | <u>7,263,111</u> | | | <u>7,263,111</u> |
| Total Expenditures & Transfers-Out | \$ <u>3,113,838</u> | \$ <u>8,350,173</u> | \$ <u>535,757</u> | \$ <u>2,844,404</u> | \$ <u>20,937,476</u> | \$ <u>841,717</u> | \$ <u>26,013,076</u> | \$ <u>73,500</u> | \$ <u>1,589,926</u> | \$ <u>64,299,867</u> |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | | | | | | | | |
| General Fund | \$ 310,173 | \$ 1,308,081 | \$ 362,035 | \$ 1,126,887 | \$ 486,718 | \$ 636,437 | | \$ 73,500 | \$ 674,804 | \$ 4,978,635 |
| State Special Revenue Fund | | | | | 11,034 | 4,021 | | | 830,457 | 845,512 |
| Federal Special Revenue Fund | 2,803,665 | 7,042,092 | 173,722 | 1,717,517 | 20,439,724 | 201,259 | \$ 18,796,254 | | 84,665 | 51,258,898 |
| Capital Projects Fund | <u></u> | <u></u> | <u></u> | <u></u> | <u></u> | <u></u> | <u>7,216,822</u> | | | <u>7,216,822</u> |
| Total Expenditures & Transfers-Out | <u>3,113,838</u> | <u>8,350,173</u> | <u>535,757</u> | <u>2,844,404</u> | <u>20,937,476</u> | <u>841,717</u> | <u>26,013,076</u> | <u>73,500</u> | <u>1,589,926</u> | <u>64,299,867</u> |
| Less: Nonbudgeted Expenditures & Transfers-Out | | 59,896 | | | | | | | | 59,896 |
| Prior Year Expenditures & Transfers-Out Adjustments | <u>841</u> | <u>(20,037)</u> | | <u>(927)</u> | <u>47,544</u> | | <u>226</u> | | <u>(1,090)</u> | <u>26,557</u> |
| Actual Budgeted Expenditures & Transfers-Out | <u>3,112,997</u> | <u>8,310,314</u> | <u>535,757</u> | <u>2,845,331</u> | <u>20,889,932</u> | <u>841,717</u> | <u>26,012,850</u> | <u>73,500</u> | <u>1,591,016</u> | <u>64,213,414</u> |
| Budget Authority | <u>3,227,362</u> | <u>8,980,326</u> | <u>723,215</u> | <u>2,846,804</u> | <u>54,402,071</u> | <u>1,892,620</u> | <u>54,583,578</u> | <u>77,500</u> | <u>1,701,213</u> | <u>128,434,689</u> |
| Unspent Budget Authority | \$ <u>114,365</u> | \$ <u>670,012</u> | \$ <u>187,458</u> | \$ <u>1,473</u> | \$ <u>33,512,139</u> | \$ <u>1,050,903</u> | \$ <u>28,570,728</u> | \$ <u>4,000</u> | \$ <u>110,197</u> | \$ <u>64,221,275</u> |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | | | | | | | |
| General Fund | | \$ 60 | \$ 8,595 | \$ 370 | \$ 126 | \$ 19,500 | | \$ 4,000 | \$ 95 | \$ 32,746 |
| State Special Revenue Fund | | 386,000 | 89,453 | | 152,824 | | | | 109,507 | 737,784 |
| Federal Special Revenue Fund | 114,365 | 283,952 | 89,410 | 1,103 | 33,359,189 | 1,031,403 | \$ 27,918,467 | | 595 | 62,798,484 |
| Capital Projects Fund | | | | | | | <u>652,261</u> | | | <u>652,261</u> |
| Unspent Budget Authority | \$ <u>114,365</u> | \$ <u>670,012</u> | \$ <u>187,458</u> | \$ <u>1,473</u> | \$ <u>33,512,139</u> | \$ <u>1,050,903</u> | \$ <u>28,570,728</u> | \$ <u>4,000</u> | \$ <u>110,197</u> | \$ <u>64,221,275</u> |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Montana Department of Military Affairs

Notes to the Financial Schedules

For the two Fiscal Years Ended June 30, 2006

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Capital Projects Funds). In applying the modified accrual basis, the department, records:

Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Notes to the Financial Schedules

The department uses the following funds:

Governmental Fund Category

General Fund – to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. The majority of the department's State Special Revenue Funds relate to Veterans' Cemeteries.

Federal Special Revenue Fund – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Air and Army National Guard, Military Capital Construction, Homeland Security, and Disaster and Emergency Services.

Capital Projects Fund – to account for financial resources used for the acquisition or construction of major capital facilities. The department's Capital Projects Fund accounts for construction of joint state/federal facilities appropriated by the Legislature.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2005, and June 30, 2006.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, State Special Revenue, and Federal Special Revenue Funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Notes to the Financial Schedules

4. General Fund Revenues

The majority of Budgeted Revenues and Transfers-In in the General Fund in fiscal year 2005-06 is federal reimbursement for fighting forest fires initially paid from the state General Fund.

5. Negative Revenue in the Federal Special Revenue Fund

The negative revenue, under Charges for Services, reflected on the Schedule of Total Revenues & Transfers-In, for fiscal year 2004-05 in the Federal Special Revenue Fund, is the result of a reclassification directed by the accounting bureau at the Department of Administration.

6. Contingent Liability

The State and the Public Employees Retirement division have been named as defendants in *Bean v. State*, Montana First Judicial Dist. Ct., Lewis and Clark County Docket No. ADV 2004-707. The plaintiffs are a group of firefighters employed by the Department of Military Affairs to provide fire protection at the Air National Guard facility in Great Falls. They claim that a statute passed by the Legislature in 2001 violates Equal Protection guarantees by requiring them to join the Public Employees Retirement system rather than the Firefighters Unified Retirement System. If successful this claim could require the state to make significant additional contributions to the plaintiffs' retirement accounts, although it is unclear whether such funds would be provided through the budget of the Department of Military Affairs. The District Court has ruled in favor of the Plaintiffs and is now considering the plaintiffs' request for an award of attorney fees and costs. The state plans to appeal the ruling to the Montana Supreme Court.

Department Response

DEPARTMENT OF MILITARY AFFAIRS



BRIAN SCHWEITZER
GOVERNOR

ARMED FORCES RESERVE CENTER
1900 WILLIAMS STREET

STATE OF MONTANA

OFFICE OF THE ADJUTANT GENERAL
MAJOR GENERAL RANDALL D. MOSLEY
(406) 324-3000 - FAX (406) 324-3011

PO BOX 4789
FORT HARRISON, MONTANA 59636-4789

October 3, 2006

Paul O'Loughlin
Senior Auditor
PO Box 201705
Helena, MT 59620-1705

RECEIVED

OCT 13 2006

LEGISLATIVE AUDIT DIV.

Dear Mr. O'Loughlin

In reply to the Financial Compliance Audit Report received by this office October 2, 2006, we are submitting the following comments:

Recommendation #1:

We concur with your recommendation. The Department will comply with bidding requirements in accordance with state law and ensure appropriate segregation of duties exists for asset acquisition.

Recommendation #2:

We concur with your recommendation. The department will ensure that we receive certification that contractors are not debarred or suspended in accordance with federal regulations.

Recommendation #3:

We concur with your recommendation. The department will ensure only allowable costs are charged to federal programs.

Recommendation #4:

We concur with your recommendation. The department will require individuals approving claims to use their own name and initials and review transactions to ensure they are posted as intended.

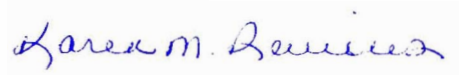
Recommendation #5:

We concur with your recommendation. The department will analyze activity in the federal special revenue funds to determine and process correcting transactions to ensure compliance with state accounting policy.

Recommendation #6:

We concur with your recommendation. The department will pay claims in accordance with state law and department policy.

Sincerely,



Karen M. Revious
Administrator
Centralized Services Division